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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 2/28/84 **Number:** 168924CA **Due By:** ____________

Subject: Cabinet Council on Economic Affairs with the President
Thursday, March 1, 1984 - 2:00 p.m. - Cabinet Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☑	☐
Attorney General	☐	☑
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☑	☐
Transportation	☑	☐
Energy	☐	☑
Education	☐	☑
Counsellor	☑	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
______	☐	☐
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______	☐	☐
Baker	☑	☐
Deaver	☐	☑
Darman *(For WH Staffing)*	☑	☐
Jenkins	☐	☑
Mc Farlane	☐	☑
Svahn	☑	☐
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CCCT/Gunn	☐	☐
CCEA/Porter	☑	☐
CCFA/	☐	☐
CCHR/Simmons	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/	☐	☐

REMARKS:

The President will chair a meeting of the Cabinet Council on Economic Affairs on Thursday, March 1, at 2:00 p.m. in the Cabinet Room.

The agenda and background papers are attached.

DCI
EXEC
REG

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson ☐ Don Clarey
☑ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
456-2800

L-300B

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

March 1, 1984

Cabinet Room

AGENDA

1. Youth Unemployment
2. Reaching Full Employment (School-to-Work)
3. Rural Electrification Administration Legislation

THE WHITE HOUSE

WASHINGTON

February 23, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: THE CABINET COUNCIL ON ECONOMIC AFFAIRS

SUBJECT: Youth Unemployment

The Cabinet Council on Economic Affairs has recently undertaken a series of studies reviewing major areas of economic policy. Economic Policy Study Number 7 focused on reaching full employment. A summary of the youth unemployment part of the study is attached at Tab A. This memorandum presents the conclusions and recommendations of the Cabinet Council arising from this study.

Background

In 1982, the Cabinet Council undertook a comprehensive examination of the nature of contemporary unemployment and of policy options designed to reduce unemployment. The results of this examination were presented to the Cabinet Council in a series of meetings during the last quarter of calendar year 1982. These presentations emphasized the importance of:

- o Distinguishing between structural and cyclical unemployment; and
- o Recognizing the differences in the causes and consequences of unemployment among different demographic groups (e.g., youth and displaced workers).

The Cabinet Council reviewed a wide range of policy options designed to address the problem of structural unemployment. You approved a number of these options, combined them into a single package, and submitted this package to the Congress as the Employment Act of 1983. These initiatives included:

- o A youth employment opportunity wage for summertime employment;
- o Exemption of wages paid under the youth employment opportunity wage from Federal Unemployment Insurance (UI) payroll taxes;
- o An extension of the Federal Supplemental Compensation (FSC) program which provides additional weeks of unemployment benefits to individuals exhausting their entitlement to regular or extended unemployment benefits;

- A job voucher program for the long-term unemployed that would enable individuals eligible for the FSC program to receive their benefits in the form of a job voucher;

- A substantial increase in funding for the displaced worker program authorized under the Job Training Partnership Act (JTPA) of 1982; and

- A modification of the Federal UI Program that would permit States to use a portion of their UI revenues for training unemployed workers.

Congress enacted two of the Administration's initiatives into law: the extension of FSC and the increased funding for the JTPA displaced worker program. Congress devoted little attention in the last session to either the youth employment opportunity wage or the job voucher proposals.

Although cyclical unemployment has declined dramatically since the recession ended in the fourth quarter of 1982, there still remains substantial unemployment among youth. The unemployment rate for all youth (age 16-19) in December 1983 was 20.1 percent. The rate for black youth was 49.0 percent.

Over the last fifty years, the Federal Government enacted a panoply of programs directed toward youth unemployment. These programs ranged from remedial education to job creation projects to tax credits. Despite the diversity of programs and the expenditure of billions of dollars, it appears that the youth unemployment problem has remained resistant to all Federal youth employment and training initiatives. Since the mid-1950's, the youth unemployment rate has moved cyclically, reaching a higher peak with each cycle.

<u>Administration Efforts to Reduce Youth Unemployment</u>

Your administration's major effort to reduce youth unemployment is embodied in the Job Training Partnership Act (JTPA) of 1982. JTPA reauthorized several existing youth employment and training programs and made youth a priority under the State block grant program. Certain administrative changes should strongly enhance the likelihood that, unlike previous programs, JTPA trains participants for actual jobs.

There is strong evidence indicating that the Federal minimum wage has restricted employment opportunities for youth and contributes to their long-term unemployment since they are unable to develop job skills and good work habits.

The Cabinet Council strongly believes the most important means of reducing youth unemployment would be to establish the youth employment opportunity wage for youth under the age of 22. This youth opportunity wage would be:

a) $2.50 per hour, 25 percent below the regular Federal minimum wage of $3.35 per hour; and

b) effective from May 1 to September 30, making it extremely unlikely that employers will substitute younger people for older workers. The proposed legislation would explicitly prohibit the displacement of current workers by those hired at the youth opportunity wage.

Based on our experience last year, this legislation will need consistent and visible presidential and White House support if the Congress is to respond favorably to this initiative.

In addition to the compelling policy reasons for advancing this initiative, a youth differential minimum wage appears to have broad public support. A recent Gallup poll reported that 53 percent of those surveyed favored enacting a year-round youth differential minimum wage while 42 percent opposed such legislation. Even among rank and file union members, 47 percent surveyed supported such legislation while 51 percent opposed it.

Many of those traditionally opposed to a youth differential have been concerned that it would result in employers substituting youth for adult workers. Since the Administration's proposal would limit the youth opportunity wage to the summer months, substitution is far less likely, undercutting one of the principal objections to a youth differential. Interestingly, a proposal for a youth differential minimum wage lost in the House of Representatives by only one vote in 1978.

Recommendation: The Cabinet Council on Economic Affairs recommends that the Administration reaffirm its support for establishing a youth employment opportunity wage and make a major effort to enact this legislation as a concrete step toward reducing youth unemployment. This effort would include presidential and White House involvement.

Approve __________ Disapprove __________

Donald T. Regan
Chairman Pro Tempore

Youth Unemployment

This report of the Working Group reviews the recent record of unemployment, particularly youth unemployment; describes previous Administration efforts to reduce youth unemployment; and focuses on the youth employment opportunity wage proposal as a means of reducing youth unemployment.

Recent Record of Unemployment

Since the recent recession ended in the fourth quarter of 1982, unemployment has declined dramatically. The unemployment rate among civilian workers peaked in November and December 1982 at 10.7 percent of the labor force (Bureau of Labor Statistics revised estimate). The Department of Labor reported that the unemployment rate in December 1983 was 8.2 percent.

Although unemployment among youth is high, white youth have also experienced a substantial decline in their unemployment rate.

	December 1982	December 1983
All youth (16-19)	24.3	20.1
White	21.6	17.0
Black	49.1	49.0

It is reasonable to assume that as the economy continues to grow strongly, the overall unemployment rate will continue to decline. However, part of the unemployment will remain even if the economy were operating at full capacity. This portion of unemployment is structural.

The Working Group has focused its efforts on developing options for reducing structural unemployment. There are two primary groups of structurally unemployed. First, youth often experience difficulty in obtaining employment because of, inter alia, lack of work history and job skills, and structural barriers such as the minimum wage. Second, workers who have permanently lost their jobs due to technological change and import competition are considered by many observers to be "displaced workers." These displaced workers often experience difficulty in obtaining employment during periods of low economic growth because of the lack of skills for available jobs and the need to relocate.

This paper addresses the issue of youth unemployment. A subsequent paper will address the issue of displaced workers.

Youth Unemployment Record

After the Korean War, the unemployment rate among youth (16-19 years of age) hovered between 11 and 12 percent. In the 1957-58 recession, that rate shot up to 15.9 percent and remained above 14.6 percent every year until 1966 when the Vietnam War buildup absorbed a substantial proportion of the youth population. While there was a slight decline in the youth unemployment rate during the late 1960's, the rate never fell below 12.2 percent. In the 1970's, the rate fluctuated between 14.5 and 19.9 percent.

The unemployment rate among black youth has always been significantly higher than that among white youth. During the 1960's, the rate among white youth peaked in 1963 at about 15.5 percent, while the rate among black youth peaked at about 30 percent. In fact, for the last two decades, the black youth unemployment rate has been roughly twice as high as the white youth unemployment rate.

Youth Employment Programs

The consequences of youth unemployment are different from those of adult unemployment. While unemployment among adults often results in significant financial loss and temporary economic hardship, unemployment among youth usually does not create severe financial hardship because most youth live in families in which they are not the primary wage earner.

Nevertheless, significant unemployment among youth can lead to serious long-term consequences. First, sustained unemployment can contribute to youth participating in antisocial or criminal activities. Second, the inability to develop good work habits and job skills during a person's formative years can result in less stable employment and diminished earning capacity during his or her adult years.

The first substantial Federal programs directed toward youth unemployment began during the Depression. Prior to the Depression, the government focused its efforts on filling labor shortages created by a short-term emergency and providing limited support for vocational skill training. In contrast, the New Deal programs emphasized not skill development, but job creation and programs to alleviate hardship. As a result, the Federal Government created numerous programs for youth employment, including the Civilian Conservation Corps and National Youth

Administration. Most of the job creation programs were discontinued after World War II.

The 1960's and 1970's saw a revival of many of the programs started in the 1930's but with one significant addition: training. The first government program in the 1960's that addressed youth unemployment was the Manpower Development and Training Act (MDTA) of 1962 which authorized services to out-of-school youth on a very limited basis.

However, it was not until the Economic Opportunity Act (EOA) of 1964 that the Federal Government established categorical programs designed explicitly for youth employment. Several of these programs are still operating today, including:

o Job Corps - a residential program which provides intensive remedial education and skill training for disadvantaged youth who drop out of school.

o Neighborhood Youth Corps (NYC) - The NYC was actually three separate programs which provided summer jobs and work experience for in-school and out-of-school youth. The summer jobs portion was the predecessor of the Summer Youth Employment Program reauthorized under the Job Training Partnership Act (JTPA) of 1982.

Despite the programs' reported success, the youth unemployment problem appeared to worsen steadily. In 1965, the youth unemployment rate stood at 14.2 percent; by 1972, it had risen to 16.2 percent.

Dissatisfaction with the unemployment situation and the chaotic collection of employment and training programs led to a restructuring effort which resulted in the enactment of the Comprehensive Employment and Training Act (CETA) of 1973. CETA reauthorized funds to continue Job Corps as well the Summer Youth Employment Program.

Even under CETA, the youth unemployment situation continued to worsen. By 1975, the overall youth unemployment rate rose to 19.9 percent. Concern about the continued high rate led to the enactment of the Youth Employment and Demonstration Projects Act (YEDPA) of 1977. This Act amended CETA and added four new categorical youth employment and training programs. Between 1977 and 1982, $10.7 billion was spent on all categorical youth programs, serving between 6 and 7 million youth under age 22.

The youth unemployment problem has apparently remained resistant to all Federal youth employment and training initiatives. While teenage unemployment declined to 16.1

percent in 1979, it rebounded to 23.2 percent in 1982.

Reagan Administration Efforts to Reduce Youth Unemployment

The Reagan Administration's major effort to reduce youth unemployment is embodied in the Job Training Partnership Act (JTPA) of 1982. Congress and the Administration worked together in 1982 to fashion JTPA which eliminated the New Deal-type programs and emphasized skill training. JTPA continues the Job Corps and Summer Youth Employment Program and makes youth a priority under the State block grant program.

In fiscal year 1984, Title II-A of JTPA provides $1.9 billion in grants to States for training, of which $754 million or 40 percent must be spent on youth. Under this title, about 400,000 economically disadvantaged youth will be trained. Title II-B reauthorizes the Summer Youth Employment Program, for which $725 million will be available in FY1984 and which will employ about 700,000 teenagers. Title IV-B reauthorizes the Job Corps program, for which $553 million will be available in FY1984 and which will train 80,000 youth.

The Administration is confident that JTPA will provide effective skill training leading to long-term productive employment for youth. By requiring that 70 percent of all funds be allocated to actual training, JTPA will assure that participants have a greater opportunity to receive training than participants in the CETA programs in which an average of only 18 percent of all funds was actually spent on training. Moreover, JTPA's close coordination with private sector employers through the Private Industry Councils (PICs) increases the likelihood that the training participants receive is relevant to jobs that are available in the market.

The minimum wage. One of the most important structural barriers to the ability of youth to gain valuable job skills is the minimum wage. Most young people entering the labor market have job skills that are well below those of older, more experienced workers. In a free market, young people could compensate for their relative lack of experience and skills by offering to work for a lower wage than more experienced workers. As they gain experience, they would be able to obtain more compensation. When the government intervenes in the market by requiring a minimum wage, it:

a) prevents employers from providing youth valuable work experience while paying them wages that are commensurate with the current value of their labor; and

b) prevents youth from obtaining an initial job and thus learning the job skills that are needed to earn more than the minimum wage.

There is strong empirical evidence supporting the argument that the minimum wage is a major contributor to the youth unemployment problem. Before the 1940's, there was no significant structural youth unemployment. In 1938, however, the Federal Government imposed a Federal minimum wage applying to firms engaging in interstate commerce which at the time meant that only manufacturing firms were affected. The minimum wage contributed to the decline in youth employment in manufacturing. However, other industries not covered by the Federal minimum wage such as retail trade and construction still provided employment opportunities for youth. Unfortunately, the increase in the minimum wage and expansion of its coverage to previously uncovered sectors during the 1960's and 1970's contributed to the continued high rate of youth unemployment, particularly among minorities.

To reduce the adverse effects of this barrier, the President last March submitted the Employment Act of 1983, in which he proposed a youth employment opportunity wage for youth under the age of 22. This youth opportunity wage would be:

a) $2.50 per hour, 25 percent below the regular minimum wage of $3.35 per hour;

b) effective from May 1 to September 30, which by itself would make it extremely unlikely that employers will substitute younger people for older workers. Moreover, the proposed legislation would explicitly prohibit the displacement of current workers by those hired at the youth opportunity wage.

Given the employment opportunities for youth that would be created if a youth opportunity wage were in effect, the Working Group recommends that the Administration strongly support in the upcoming Congressional session legislation establishing the youth opportunity wage. The Working Group notes that the President recently indicated in an interview with editors of the Gannett Co. that he will press Congress again for establishing the opportunity wage.

THE WHITE HOUSE

WASHINGTON

February 23, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: THE CABINET COUNCIL ON ECONOMIC AFFAIRS

SUBJECT: School-to-Work Transition Proposal

Governor du Pont, Chairman of the Jobs for America's Graduates (JAG) program, has asked the Administration to propose legislation funding a School-to-Work Transition program. Members of the JAG Board of Directors include several prominent political figures including Governors Pierre du Pont, Kit Bond, and Lamar Alexander, Vice President George Bush, former Vice President Walter Mondale, and Senator Howard Baker. The latest proposal would reprogram $25-50 million from the Summer Youth Employment Program to the Job Training Partnership Act's discretionary account to fund an expanded series of demonstration projects. These School-to-Work Transition demonstration projects would be modeled after the JAG program.

Background

JAG is an outgrowth of a program conceived by Delaware Governor du Pont in 1978 as a means of addressing high unemployment among workers under age 24 in his State. Jobs for Delaware Graduates (JDG) was launched in the 1979-80 school year with $1.7 million from the U.S. Department of Labor (DOL) which matched State and foundation contributions. DOL has continued to support this program as a demonstration. It proposed $2.5 million for the demonstration in FY1984, although the demonstration phase is coming to an end.

Based on the Delaware experience, the JDG model has been replicated through the Jobs for America's Graduates program in seven other States including Arizona, Massachusetts, Michigan, Missouri, Ohio, Tennessee, and Virginia.

The JAG model is designed to serve high school seniors who do not plan to pursue post-secondary school education and who a screening process indicates are likely to have difficulty finding a job after graduation. This screening process would involve objective testing and the subjective judgments of local school officials and the staff of the school-to-work transition program. There are no income eligibility criteria for student participants.

The program relies on strong State and local government and business support to provide it with visibility and access to private sector employers. The program places counselors and job specialists in local high schools to provide participating seniors with up to 60 hours of pre-employment guidance in job search techniques and job holding disciplines (i.e., work habits). The job specialists assist those participants who graduate in their job search in a ratio of about one for each 30-35 graduates. The job specialists also provide continuing job search assistance, if necessary, to the graduate for up to nine months after graduation. Participants who do not graduate from high school are not allowed to continue participation, a provision which encourages high school graduation among those who wish to receive help from the program.

Program Evaluations and Reviews

Based on field reviews, JAG claims an 88 percent positive placement rate. A DOL-sponsored study concluded that successful participants earned $0.38 per hour more than participants in a comparison group. The study found that successful participants were 10 percent more likely than those in the comparison group to be employed eight months after graduation. A study sponsored by JAG and conducted by Andrew Sum of MIT found a positive placement rate of 79 percent. The Sum study concluded that successful participants earned wages of $0.15 per hour higher than participants in a comparison group. A summary of research findings provided by Jobs for America's Graduates, Inc. is attached.

The Office of Management and Budget notes that the program statistics may be overstated. This is caused by several factors. First, the base used to calculate the positive placement rate does not include those participants who drop out of school and the program. Both positive placements and the base include those who attend post-secondary school education or enlist in the military. Adjusting for these factors would result in about a 42 percent job placement rate (48 percent including the military).

Second, based on a field review, many successful job placements appear to include people who had been working in the same job which they held during school or the previous summer. Of those people who JAG claims found jobs, the same field review found that 75 percent were working in jobs they previously held. Moreover, two-thirds of those interviewed who were holding jobs reported that they got their job through their own efforts, rather than through referral by JAG.

Current Spending for Youth Employment Programs

A school-to-work transition program would supplement existing efforts to train and employ youth. The following table summarizes the minimum level of funds available for training, employment, and job search assistance for youth during the Job Training Partnership Act (JTPA) program year beginning July 1, 1984 and ending June 30, 1985. Marginally higher spending levels are proposed for the following year.

Available Federal Funds for Youth Employment Assistance

	Total	Disadvantaged Youth	Non-Disadvantaged Youth
JTPA Block Grant	$754	$679	$75
Summer Youth Employment . .	725	725	0
Job Corps . . .	577	577	0
Employment Service	263*	-	-
Total . . .	$2319	$1981	$75

* The Employment Service allocates funds to serve youth in proportion to the youth representation in the pool of unemployed, about 30 percent. These resources can be devoted to serving either disadvantaged or non-disadvantaged youth.

The table divides available funds into those which are available to serve economically disadvantaged youth and those available to serve non-disadvantaged youth. For instance, the JTPA block grant authority requires the Governor to spend at least 40 percent of the block grant resources on youth. In addition, the Governor may spend up to 10 percent of the resources on non-disadvantaged youth. Therefore, $75 million is allocated to this category.

Previous Administration Consideration

The issue of Administration support for a JAG-type school-to-work transition program has been considered on previous occasions.

- o Governor du Pont approached the Administration in October 1981 seeking $7 million from the Department of Labor (DOL) for support of JAG. DOL objected to the request and argued that it had few discretionary resources to spare and had had to cut out many other popular programs. The Employment and Training Administration eventually agreed to provide $1 million in discretionary funds for JAG in FY1982.

- o During drafting of the Administration bill to replace CETA in 1982, Governor du Pont suggested that at least 30 percent of the block grant resources be untargeted. The Administration chose instead to target training resources on the disadvantaged.

- o The Congress also rejected explicit support of the JAG concept when it adopted the Administration's philosophy in the legislation that became JTPA. Congress did, however, provide States and localities the flexibility to adopt JAG-type programs (if they meet their needs) through current authorizations under JTPA.

- o The Cabinet Council on Economic Affairs (CCEA) considered a proposal for a $300 million National School-to-Work Transition Assistance program in December 1983 and a subsequent proposal to reprogram $25 million to $50 million from the Summer Youth Employment Program earlier this month. The CCEA decided not to recommend proposing legislation for such a program or reprogramming resources to finance it. However, the CCEA agreed that the Administration would work with JAG to develop a program to promote the concept to States.

Options

Option 1: Propose or support separate legislation to authorize a national School-to-Work Transition Program at $300 million in FY1985 escalating to $1 billion in FY1988.

The national school-to-work transition program would be modeled after the JAG program.

Advantages

- o Administration legislation would provide a visible initiative addressing the chronic problem of youth unemployment.

- o This program could use the existing JTPA delivery system, emphasize business involvement, and adhere to JTPA's firm no-stipend policy.

- o The JAG Board of Directors, comprising prominent public officials from both political parties, strongly advocates adoption of the program.

Disadvantages

- o A high cost new initiative with escalating out-year costs is unnecessary. The new initiative duplicates existing JTPA and Employment Service authorities which allow States or localities to establish school-to-work transition programs and provide resources sufficient to cover their costs.

- o This proposal would create a new categorical program at a time when the Administration has successfully enacted block grant legislation for employment and training programs.

- o The existing evidence is mixed on the effectiveness of the program in enhancing employment and earnings opportunities for youth.

Option 2: Propose $25 million to $50 million increase in Department of Labor discretionary program to fund JAG demonstration projects in each of the 50 States.

Advantages

- o This is a modest but visible initiative in 1984 that would demonstrate the President's concern about high youth unemployment.

- o This expanded demonstration program may forestall Congressional action resulting in a larger new permanent program.

Disadvantages

- o States already have $75 million in discretionary funds to establish their own demonstration projects. At the initiative of Governors, eight States have already established JAG programs.

- o The extent of Congressional support for a major new national school-to-work program is not clear.

Option 3: Propose an amendment reprogramming $25 million to

$50 million from the Summer Youth Employment Program to JTPA's discretionary account to fund an expanded series of school-to-work transition projects modeled after the Jobs for America's Graduates Program.

Advantages

- o Reprogramming resources would retarget Federal summer youth employment spending on private sector jobs without stipends or subsidies.
- o A program modeled after JAG begins the process of preparing youth well before leaving school to ensure they are prepared to obtain and keep a job in the private sector.

Disadvantages

- o Reprogramming funds from a program which serves disadvantaged youth to one which serves youth regardless of parental income would exacerbate the perception that the Administration is insensitive to the poor.
- o In an election year, Congress is unlikely to reduce funding for the summer youth program. Therefore, the likely outcome of a reprogramming request would be to increase total Federal spending. As with other Administration initiatives, such as math and science legislation, the temptation for expanding funding in the current and out-years will be powerful.

Option 4: Do not propose legislation reprogramming funds toward school-to-work transition programs. Instead, encourage States and localities to use existing authority and flexibility to establish school-to-work programs modeled after JAG.

This option continues to rely on the States and localities to use existing authority and flexibility under JTPA, Wagner-Peyser Act, Chapter II of the Education Consolidation and Improvement Act, and Vocational Education Act for implementing programs that meet their most pressing labor market problems. Although most Governors are aware that JTPA explicitly authorizes school-to-work transition programs, they are apparently not aware of recent changes in the Wagner-Peyser Act which permit ten percent of the funds provided to each State for the Employment Service to be used for special activities, including school-to-work transition programs. Ten percent of the proposed FY1985 Employment Service funds totals almost $90 million. Governors are also apparently not aware that they may use Vocational Education Act resources to support special and innovative projects. The proposed FY1985 funding for vocational education is $700 million.

While this option would not involve budget changes or legislative proposals, the Administration could launch a high-level publicity effort. For example, the President could encourage States and localities to adopt the program in a radio address and Administration officials could widely publicize the program.

The first JTPA and Wagner-Peyser Act program year begins on July 1, 1984. This provides an ideal time to encourage States to utilize their discretionary JTPA and Employment Service funds for school-to-work transition programs. In addition, the Vocational Education Act is up for reauthorization. The Administration's bill permits States to use vocational education funds to finance school-to-work transition programs.

Advantages

- This option would require no increase in Federal spending and would avoid opening up JTPA to significant election-year Congressional increases.

- It would preserve the integrity of JTPA and continue reliance on States and local areas for designing employment and training strategies.

Disadvantages

- Endorsement, publicity, and encouragement of the program may be perceived as an inadequate initiative attacking youth unemployment.

- Supporters of JAG may mobilize a bipartisan effort to enact legislation without Administration support.

Decision

Option 1 __________ Propose or support separate legislation to authorize a national school-to-work transition program at $300 million in FY1985 escalating to $1 billion in FY1988.

Option 2 __________ Propose a $25 million to $50 million increase in Department of Labor discretionary program to fund JAG demonstration projects in each of the 50 States.

Option 3 __________ Propose an amendment reprogramming $25 million to $50 million from the Summer Youth Employment Program to JTPA's discretionary account to fund an expanded series of school-to-work transition projects modeled after JAG.

Option 4 __________ Do not propose legislation reprogramming funds toward school-to-work transition programs. Instead, encourage States and localities to use existing authority and flexibility to establish school-to-work transition programs modeled after JAG.

Donald T. Regan
Chairman Pro Tempore

Jobs for America's Graduates, Inc.

SUMMARY OF RESEARCH FINDINGS

Jobs for America's Graduates designed and implemented an extensive evaluation system to determine whether participation in JAG programs significantly enhanced the ability of high school graduates to successfully transition from school to work.

This research has found the following benefits for participants in the Class of 1982 when compared to comparison group members.

Employment Overall

- Participants were 54% more likely to be employed during the first three months following graduation.
- Participants were 67% more likely to be employed in the fall following graduation (November-December 1982).

Earnings Overall

- Participants earned nearly 86% more money during the first three months following graduation.
- Participants earned nearly $750 more during the first six months following graduation.

Race

- Minorities tend to benefit to a substantially greater degree than white participants on most measures of performance.
- Black participants were twice as likely to be employed than black comparison group members in the fall following graduation (109% more).
- Black participants earned 92% more money than black comparison group members.

Achievement

- Participants graduating with a C average were nearly twice as likely to have a job in the fall following graduation than comparison group members (97% more).

SUITE 304, 1750 PENNSYLVANIA AVENUE, N.W., WASHINGTON, D.C. 20006 (202) 638-2958

Family Income

- o Participants from low income families were more than twice as likely to be employed than comparison group members from low income families (125% more).
- o Participants earned more than twice as much money as comparison group members from low incomes (111% more).

Prior Work Experience

- o Participants with no prior work experience were nearly three times as likely to be employed than comparison group members (182% more).
- o Participants with no prior work experience earned nearly three times more money than comparison group members (185% more).

Recent studies have found that those young people who experience the greatest difficulty making the transition from school-to-work generally have the following characteristics:

- o come from the low income families
- o have little prior work experience
- o have low academic achievement
- o are members of a racial minority.

Jobs for America's Graduates, therefore, is found to serve best those who need it most.

THE WHITE HOUSE

WASHINGTON

February 23, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: THE CABINET COUNCIL ON ECONOMIC AFFAIRS

SUBJECT: Proposed Rural Electrification Administration (REA) Legislation

The Rural Electrification Revolving Fund Self-Sufficiency Act (S. 1300, H.R. 3050), a bill promoted by the National Rural Electric Cooperative Association (NRECA), is a major legislative threat on the near horizon. The bill, or more accurately the "bailout," having a total cost of $20.7 billion, would:

- o forgive the Rural Electrification and Telephone Revolving Fund (RETRF) obligation to make principal payments on $7.9 billion in long term notes scheduled for repayment to the Treasury beginning in 1993;

- o authorize the REA to refinance outstanding loans whenever interest rates on outstanding loans are at least one percent above Treasury rates (The House Agriculture Committee deleted this provision, costing approximately $8 billion, when forwarding H.R. 3050); and

- o effectively require downward adjustment of interest rates on new REA loans when Treasury borrowing rates decline, but do not require a comparable upward adjustment when rates increase.

The Cabinet Council considered this legislation at several meetings last fall and decided that: (1) OMB and Treasury would send strongly worded letters similar to Secretary Block's October 28, 1983 letter (attached) pointing out the flaws in H.R. 3050; and (2) the Administration would propose its own counter legislation regarding the REA.

The Department of Agriculture has drafted such legislation, the main provisions of which would:

- o place REA activities on budget;

- o raise the REA lending rate equal to the Treasury's cost of money. The current rate is 5 percent, with some 2 percent emergency lending; and

- o require all borrowers to pay user fees to cover administrative costs of the loan.

Secretary Block reports that: (1) there is little Congressional interest in pursuing the Administration's proposal; and (2) it is very likely that the Rural Electrification Revolving Fund Self-Sufficiency Act will pass this session of Congress. Floor action in the House and Committee action in the Senate are likely soon.

The Cabinet Council discussed two alternative Administration positions:

1. continuing support of our legislative proposal while strongly opposing the "bailout" bill and evidencing no interest in compromise; or

2. acknowledging the strength of the support for the Rural Electrification Revolving Fund Self-Sufficiency Act and attempting to work with the Congress to develop a less costly bill.

Council members were unanimously opposed to attempting to negotiate on the NRECA bill.

Since the Cabinet Council discussed this issue on February 10, Congressman Bethune (R-Arkansas) has introduced a substitute bill which is more generous than the Administration's proposal but much less objectionable than the NRECA bailout bill. A comparison of the main features of these proposals is attached. Our best current reading is that the Bethune substitute bill is unlikely to gain substantial support in either the House or the Senate.

The Cabinet Council believes that the current draft of the NRECA "bailout" bill is so costly that the Administration would be in a much better position to sustain a veto than if we participated in negotiating a less costly but still unacceptable proposal.

<u>Recommendation</u>: The Cabinet Council on Economic Affairs unanimously recommends continuing to support our legislative proposal while strongly opposing the NRECA bailout bill and evidencing no interest in negotiating a compromise on it.

Approve ____________ Disapprove ____________

Donald T. Regan
Chairman Pro Tempore

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

October 28, 1983

Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Department of Agriculture has serious concerns about several provisions of H.R. 3050, the Rural Electrification and Telephone Revolving Fund Self-Sufficiency Act of 1983.

The Administration strongly supports the Rural Electrification Administration program and recognizes the need for a stable, well maintained revolving fund to assure a sound electrical and telecommunication infrastructure for rural America.

We are concerned that the remedies provided for in H.R. 3050 will not achieve the stated purpose of the bill and will, at the same time, place a severe economic burden on the American taxpayer.

The Administration would be pleased to work with the Congress to amend the legislation in order to solve the REA Revolving Fund problem.

It is my responsibility to inform you that if H.R. 3050 is approved as currently drafted, I will be forced to recommend to President Reagan that he veto this defective and unnecessarily costly bill.

Sincerely,

John Block

JOHN R. BLOCK
Secretary

2/22/84

Comparison of H.R. 3050/S.1300 (NRECA Bill), Bethune Substitute and Current Administration Policy

	NRECA Bill	Bethune Substitute	Admin. Policy
1. Debt Forgiveness	Forgives $7.9B owed by the Revolving Fund to Treasury.	None.	None.
2. Direct Loan Level	$1.3B/yr. minimum.	$1.1B/yr.	$575M/yr.
3. Direct Loan Interest Rates	Rates set periodically to recover enough interest income to meet interest expenses and loan advances, but not payments on Treasury or FFB debt; results in rates considerably below Treasury cost of borrowing.	Rates set annually at a formula which, phased in over 10 years, would be a ratio of fund expenses (minus debt payments) to interest income, multiplied by the Treasury rate; results in Treasury rates at above loan level, but lower rates at lower levels.	Rates set at the Treasury's cost of borrowing, regardless of loan level.
4. Refinancing Features	Allows Revolving Fund refinancing of FFB CBO's and REA borrower refinancing of FFB only when interest rates decline.	None.	None.
5. Third Party Debt Requirements	Requires guarantee of third party debt or subordination of government's first lien, at option of borrower.	None.	None.
6. Supplemental Financing	Requires maintenance of 70/30 government-to-private credit ratio for direct loans unless loan level is raised above minimum.	No mandate.	Average 50/50 ratio for direct, 90/10 for guarantees.
7. Rural Telephone Bank Eligibility	Expands eligibility to Bank, shifting borrowers from low-interest Revolving Fund, but also increases total amount of telephone systems eligible for Federal assistance.	Expands eligibility to Bank, shifting borrowers from low-interest Revolving Fund; does not increase total amount eligible.	Same as Bethune.
8. User Fees	None.	None.	New fees to fund the $30M/yr. S&E account.
9. On-budget vs. Off-budget	Maintain off-budget.	Maintain off-budget.	Move to on-budget.